

**BILL #** HB 2336

**TITLE:** corporate income tax rate reduction

**SPONSOR:** Adams

**STATUS:** As Introduced

**PREPARED BY:** Brian Cary

## **FISCAL ANALYSIS**

### **Description**

The bill would reduce the corporate income tax rate by 5% beginning in calendar year (CY) 2007.

### **Estimated Impact**

The bill would reduce corporate income tax collections by \$(57.4) million in FY 2008 and \$(50.4) million in FY 2009. These estimates are based on a static model and do not incorporate “dynamic” estimates. While HB 2336 would lead to a direct reduction in corporate tax liabilities, it would also create a more favorable tax environment. As a result, the bill could generate additional economic activity that would lead to an offsetting increase in tax collections. This type of secondary, or dynamic impact, is difficult to estimate.

Dynamic estimates are based on complex econometric models. Based on national research, these models typically generate dynamic revenue feedbacks ranging from 2% to 20% of the static revenue impact within 5 years. In other words, up to 20% of the static revenue loss would be offset by revenues generated by greater economic activity. The specific feedback will depend on the type and magnitude of the tax reduction. Due to time constraints, this analysis does not include a dynamic forecast for HB 2336. The impact, however, can be expected to fall within the typical dynamic feedback range.

The Department of Revenue has estimated that the bill would have an impact of \$(40) million on the state General Fund in FY 2008.

### **Analysis**

Under current law, the Arizona corporate income tax rate is 6.968% of a corporation’s net Arizona taxable income or \$50, whichever is greater. HB 2336 would reduce the corporate tax rate by 5% to 6.620% in CY 2007 and in future years. Based on the JLBC FY 2008 Baseline forecast, a rate reduction of 5% in CY 2007 would reduce corporate income tax liabilities by \$(49.7) million for that tax year. However, it is not known precisely when the impact of the rate reductions would affect actual tax collections. The revenue impact would occur over time as corporations make their quarterly estimated tax payments.

It is likely that the full impact of the rate reductions would be realized over 3 fiscal years due to variability in corporate income tax filing deadlines. For purposes of this analysis, 25% of the revenue impact would occur in year 1, 65% in year 2, and 10% in year 3. It should be noted, however, that since the first rate reduction is retroactive to January 1, 2007, the associated 25% revenue impact for CY 2007 will not occur until FY 2008. Under this approach, the estimated static impact would be approximately \$(57.4) million in FY 2008 and \$(50.4) million in FY 2009.

### **Local Government Impact**

Each year incorporated cities and towns receive 15% of individual and corporate income tax collections from 2 years prior. This bill would reduce local government distributions by \$(8.6) million in FY 2010 and by \$(7.6) million in FY 2011.